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OCTOBER 1980 SURVEY

Surveys of Consumer Attitudes

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IMPROVED CONSUMER SENTIMENT MAINTAINED IN OCTOBER 1980 SURVEY

**In the October 1980 Survey of Consumer Attitudes, the Index of Consumer Sentiment was 75.0, a statistically insignificant change from the 73.7 recorded in the September survey. Nonetheless, the October survey recorded the fifth consecutive monthly increase, which maintains the sizable recent improvement in consumer sentiment. The October 1980 reading is more than 20 Index-points above the cyclical low recorded in May, and more than 10 Index-points above the year-earlier reading.

**Among families with incomes of $20,000 or more, the Index figure was 76.3 in the October 1980 survey, insignificantly below the 78.1 recorded in September. The October level of sentiment among high-income families represents a 20 Index-point gain from the mid-1980 low, and 10 Index-point improvement above year-earlier readings. Residents of the Southern region posted the largest recovery in sentiment since mid-year lows, moving from 49.3 in May 1980 (the lowest of the four regions) to 79.1 in October 1980 (the highest among the four regions), an increase of nearly 30 Index-points.

**News heard of recent changes in business conditions continued to be dominated by unfavorable references to high unemployment and inflation. During the past several months, however, reports of spreading unemployment have fallen off sharply, while reports of high and increasing interest rates have increased. Among all families, 49 percent in the October survey expected interest rates to increase during the year ahead, more than twice the 21 percent recorded just three months earlier in July 1980.

**Among all families, 44 percent expected bad times financially in the economy as a whole during the next five years, a significant improvement from the 56 percent recorded in September 1980, and 67 percent recorded in October 1979. This represents the first monthly survey in more than 2 years in which the majority of families did not expect unfavorable long-term business conditions. Short-term business expectations also improved, with the proportion who expected bad times financially in the economy as a whole during the next 12 months falling to 49 percent in October 1980, from 52 percent in September, and 70 percent a year earlier.

**The improved business outlook was accompanied by lessening fears of spreading unemployment. Unemployment was expected to increase in the year ahead by 30 percent of all families in October 1980, down from 40 percent in September, and 55 percent in October 1979. Declining unemployment in the year ahead was expected by one in five households in the October 1980 survey, three times the proportion recorded a year earlier.

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The pre-election survey results indicate that consumer attitudes and expectations in October maintained an overall holding pattern from September levels, with offsetting changes reflecting less concern with unemployment and more concern with rising interest rates. Reagan's landslide victory may further increase optimistic business expectations in the months ahead, but recent increases in interest rates have already resulted in some weakening of favorable buying attitudes. These data suggest that consumer sales will follow an improved path, but the expansion will be cautious and responsive to changes in credit conditions.

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Volatile Pace of Change

The pattern of decline and the recent recovery in consumer sentiment has been characterized by an uneven pace. From mid-1977 (when the Index reached its cyclical peak) to mid-1979, the Index of Consumer Sentiment declined by about 20 Index-points. In the twelve months from March 1979 to February 1980, the Index remained largely unchanged, moving in a horizontal pattern within the narrow range of 60 to 68 Index-points. In the three month period from February to May 1980, the Index fell from 66.9 to 51.7 in May, accounting fro more than a third of the total three year decline of 38 Index-points. The initial recovery in sentiment has also been rapid thus far. In the five months from May to October 1980, the Index regained 23 points, more than half of the entire three year decline. The recovery in consumer sentiment cannot be expected to continue at this rapid pace.

The two major components of the Index--evaluations of current, and evaluations of expected conditions--have both significantly improved since the mid-1980 low. Although evaluations of current conditions reached a cyclical low in mid-1980, the expectations component of the Index first reached cyclical low levels in mid-1979, posted improvements in late 1979, and following a series of reversals in early 1980, continued on that same path of improvement. In comparison with year earlier measurements, the expectations component was significantly more favorable in October 1980, but evaluations of current economic conditions were largely unchanged from year earlier readings. Thus the movement of these components continues to indicate the early stage of the current recovery.

Personal Finances

Consumer evaluations of their personal financial situation, after posting improvements in early summer 1980, have remained largely unchanged during the past several months. In each of the monthly surveys from July to October 1980, 40 percent of all families reported being worse off financially than a year earlier, and approximately 30 percent reported being better off financially. Consumers thus on balance continue to report an unfavorable financial situation, although the margin of opinion recorded in October (40 to 30 percent) was much smaller than the April 1980 low (51 to 24 percent) and somewhat smaller than the year earlier reading (45 to 28 percent).

In the October 1980 survey, half of all families (50 percent) expected their financial situation to remain the same during the year ahead. Fewer families

expected their financial situation to improve in the year ahead in October 1980 (25 percent) than in September (34 percent), although it was nearly identical with the year earlier reading (24 percent). The proportion of families who expected to be worse off financially in both the September and October 1980 surveys was 17 percent, a significant improvement from the 28 percent recorded in October 1979.

Expected changes in nominal family income were somewhat more favorable in the October 1980 survey than a year earlier. Income increases were expected by 68 percent of all families in October 1980, up from 60 percent in November 1979, with income increases of 10% or more expected by 28 percent of all families in October 1980, up from 25 percent in November 1979. After allowance for price increases, real income declines were less frequently expected in October 1980 than in October 1979. A year ago the majority of families (52 percent) expected their real income to decline in the year ahead; in October 1980, this proportion fell to 43 percent.

Business Conditions

Evaluations of current business conditions have improved steadily since the June 1980 low, although they still remain on balance unfavorable. In October 1980, 64 percent of all respondents said business conditions had worsened during the past year, down from 70 percent in September and considerably below the record 90 percent recorded in May and June.

With regard to future changes in business conditions, the balance of opinion in October pointed toward improvement rather than deterioration for the year ahead. In the October 1980 survey, business conditions were expected to improve rather than worsen by a margin of 33 to 18 percent, a significant improvement over the year-earlier reading when the balance of opinion was reversed and pointed toward worsening rather than improving conditions by a similar margin of 35 to 15 percent. In explaining why they thought business conditions would change during the year ahead, one in four respondents mentioned the upcoming elections and government economic policy as reasons for either expecting favorable or unfavorable changes in the economy. Overall, confidence in government economic policy remained at low levels in the October 1980 survey. Among all families, 40 percent rated government policy as poor, from the 41 percent recorded in September, and somewhat below the 45 percent recorded in October 1979.

In the October 1980 survey, consumers expected prices to increase by 9.2% on average during the year ahead, up from 8.5% in September, and 8.9% in October 1979. Importantly, the slightly higher mean level of expected inflation was accompanied by a divergent movement of opinion--families more frequently expected no increase in prices (20 percent in October 1980, up from 17 percent in September, and 13 percent in October 1979), and families more frequently expected prices to increase by 15% or more (16 percent in October 1980, up from 13 percent in September, and 11 percent in October 1979). Thus although the overall increase in price expectations was small, the greater dispersion of expectations indicates increased price uncertainty.

Potential Impact of the Election

In the October 1980 survey, respondents were asked about which candidate they expected to win the presidential election. Among all households, nearly equal proportions expected Reagan (45 percent) as Carter (43 percent) to win, reflecting the widespread pre-election uncertainty about the outcome (Table 1). Families who expected Reagan to win gave somewhat less favorable assessments of their personal financial situation, less favorable evaluations of current business conditions, and much less favorable evaluations of current government economic policy. Importantly, those who expected Reagan to win recorded significantly more optimistic business expectations (Table 3). The landslide vote may propel others who did not originally expect a Reagan victory, to reassess more favorably the outlook for business conditions. Although tax cuts were a prominent part of the campaign, just 25 percent of all families expected a reduction in personal income taxes during the next 12 months(Table 2). Interestingly, the expectation of a personal tax reduction had a much more favorable impact on business expectations than on personal financial attitudes (Table 3).

Table 1

EXPECTED ELECTION OUTCOME

Candidate Respondent Expected to Win Election	October 1980
Carter	43%
Reagan	45
Anderson	1
Don't know	6
Not ascertained	5
Total	100%
Cases	685

The question was: "Who do you think will be elected President in November--Carter, Reagan, or Anderson?"

Table 2

EXPECTED TAX REDUCTION

Expect Tax Reduction?	October 1980
Yes	25%
No	64
Uncertain; don't know	10
Not ascertained	1
Total	100%
Cases	685

The question was: "Do you think personal income taxes will actually be reduced or rebated in the next 12 months--I mean, will Congress pass such a law?"

Table 3

IMPACT OF ELECTION AND TAX CUTS ON SENTIMENT

	Candidate Respondent Expected to Win Election		Whether Respondent Expected Tax Cut during Next Year	
	Carter	Reagan	Yes	No
Index of Consumer Sentiment	73.2	75.9	79.3	74.2
Personal Finances				
Compared with year earlier	92	87	91	90
Expected during next year	112	107	112	108
Business Conditions				
Compared with year earlier	64	54	58	61
Expected during next year	109	121	128	110
Expected next five years	74	90	96	78
Confidence in Government's Economic Policy	81	53	60	66

Buying Conditions

In the October 1980 survey, buying conditions for large household durable goods were viewed favorably by 55 percent of all families, up from 44 percent in July, and just below the 58 percent recorded in October 1979. The increase in favorable durable buying attitudes during the past several months has been associated with more frequent mentions of low prices and less frequent complaints about high prices. In October 1980, 20 percent of all families mentioned low prices or the availability of good buys, up from just 8 percent in October 1979.

After posting strong improvements in buying attitudes toward houses from May through August 1980, favorable house buying attitudes have since declined. In October 1980, 36 percent of all families rated buying conditions for houses as favorable, down from 38 percent in September, and 44 percent in August 1980. The major reason for the decline in favorable buying attitudes was more frequent mentions of high interest rates and tight credit conditions in October 1980 (56 percent) than in August (41 percent). During the past two months, the proportion of families who mentioned easier credit conditions as a favorable factor has fallen from 28 percent in August to 16 percent in October 1980.

Attitudes toward buying conditions for automobiles posted a significant improvement in the October 1980 survey. Among all families, 45 percent rated buying conditions for cars as favorable in October 1980, up from 42 percent in September, and equal to the 45 percent recorded a year earlier. Unfavorable attitudes are now held by 39 percent of all families, down from 44 percent in September, and 46 percent in October 1979. On balance, attitudes toward buying conditions for automobiles are now more favorable than at any time since early 1979. The October improvement in car buying attitudes can be traced to more frequent mentions of new fuel efficient models, and less frequent mentions of high prices making buying conditions unfavorable. In comparison with a year ago, high interest rates and tight credit conditions are now mentioned more frequently as an unfavorable factor (14 versus 8 percent), with price and availability of gasoline less frequently mentioned as an unfavorable factor (4 versus 13 percent).

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The October 1980 survey was conducted between September 29 and November 2, with 685 interviews obtained.